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ABSTRACT

This policy brief examines the relationship between fiscal policies in special education and the requirement under the Individuals with Disabilities Education Act that students with disabilities be educated in the least restrictive environment appropriate to their needs. It discusses the effects of state fiscal policy on the provision of special education programs, focusing in particular on fiscal incentives related to the identification and placement of students with disabilities. The brief emphasizes that changes in fiscal policy alone are unlikely to effect reform. State fiscal policies affecting the placement of students with disabilities include aid differentials related to placement, separate funding mechanisms for separate placements, and separate funding for transportation. States reporting success with fiscal reform stress the need not only to remove disincentives for restricted placements, but to provide a comprehensive system of professional development and support related to the desired program reform. (Author/DB)

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Fiscal Issues Related to the Inclusion of Students with Disabilities

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Abstract

This brief examines the relationship between fiscal policies in special education and the requirement under the Individuals with Disabilities Education Act (IDEA) that students with disabilities be educated in the least restrictive environment (LRE) appropriate to their needs. It discusses the effects of state fiscal policy on the provision of special education programs, focusing in particular on fiscal incentives related to the identification and placement of students with disabilities. However, the author emphasizes that changes in fiscal policy alone are unlikely to effect reform. States reporting success with fiscal reform stress the need not only to remove disincentives for restrictive placements, but to provide a comprehensive system of professional development and support related to the desired program reform.

This policy brief examines the relationship between fiscal policies in special education and the requirement under the Individuals with Disabilities Education Act (IDEA) that students with disabilities be educated in the least restrictive environment (LRE) appropriate to their needs. Meeting the LRE requirement is complicated by the sometimes competing requirement under the IDEA that a "continuum of services" be made available for students with disabilities. The essence of this requirement is that an array of alternative placement options must be made available for special education students to assure that appropriate choices are available. While some policymakers use the LRE requirement to argue that more restrictive placement options (e.g., state schools) are no longer needed, others point to the "continuum of services" provision to counter that they are not only needed, but required.

This brief does not attempt to resolve the tension that appears between these two provisions. However, it argues that fiscal incentives favoring restrictive placements should be identified and removed since they clearly conflict with the LRE requirements under the IDEA. Whether the resulting fiscal policies should simply be free of any placement incentives, or should actually favor less restrictive placements is a matter for local, state, and federal policymakers to determine. However, in evaluating alternative fiscal provisions, policymakers must carefully consider the placement incentives associated with each alternative and develop future fiscal policies that are consistent with the state's program goals.

Effects of Fiscal Policy on Program Provision

Each of the states and the federal government have a different set of policies and procedures for determining allocations of special education aid to local school districts. Each set of policies has been designed to achieve different fiscal and program objectives. Some tend to be more supportive of inclusive placements and integrated services than others. While this brief does not endorse any single funding approach, it aims to present the following principles — that:

- financing policy will influence local program provision;
- there are no incentive-free financing systems; and consequently
- it is essential to develop provisions that will support, or at least not obstruct, program goals, when developing fiscal policy.

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In short, prior to the design of funding provisions, it is imperative to determine specific goals for a given social intervention and then to design the financing system accordingly (see Parrish, 1994).

Increasing the degree of participation of students with disabilities in general education programs is a goal that is commonly held at the federal level and across the states. Although these policies have recently received new emphasis with the widespread interest in issues related to special education inclusion, in fact they are clearly found in the initial LRE provisions of the IDEA. However, it is becoming increasingly clear that special education fiscal policies sometimes affect program provision in unanticipated ways and may sometimes serve as a barrier to the implementation of more integrated and inclusive programming for students with disabilities. Governmental statements of support for more inclusive placements are not likely to change local practice if the accompanying fiscal provisions actively discourage them.

Thus, prior to considering the relationship between special education finance policies and the removal of incentives for restrictive placements, it is necessary to develop some agreed upon definition of the specific reforms being pursued. Such reforms generally include the removal of fiscal incentives for placing students in private rather than public schools, in specialized rather than neighborhood schools, and in segregated classrooms and settings throughout the school day. However, they may also include issues related to greater flexibility in the use of local resources, the creation of an intervention systems for *all* students, and the creation of fiscal disincentives for labeling students as "special education."

■ **Removing incentives for restrictive placements.** One way to avoid restrictiveness in the placement of students is to avoid fiscal incentives for identifying students as special education in the first place when alternative types of interventions may be sufficient to meet their needs. For example, the removal of fiscal incentives to identify more special education students is a stated policy objective of recently enacted special education finance reforms in the states of South Dakota, Vermont, Pennsylvania, Massachusetts, and Montana. This is also an element contained in the recent recommendation issued by the U.S. Department of Education related to federal funding allocations under the IDEA.

■ **Providing a seamless set of services for all students.** A related objective for program reform is to provide a seamless set of services to meet the needs of all students — whether they have general, special, bilingual, poverty-related or compensatory education requirements. This strategy attempts to reduce the barriers built around these categorical programs, which result in the separation of associated programs and services. These barriers lead to the inefficient use of resources through the required maintenance of multiple administrative units, accounting structures, and facilities; and to the inefficient provision of services for students with multiple special needs. The separation of these services may also be seen as leading to more restrictive service models (see McLaughlin, 1995, and Verstegen, 1995).

"It is essential to develop provisions that will support, or at least not obstruct, program goals, when developing fiscal policy."

The concept that appropriate instructional programs and related services cannot be provided without adequate financial support has long been recognized. However, a newer concept that is becoming widely recognized is that the *policies that underlie educational financing mechanisms may be as important in affecting program provision as the amounts allocated.* Even the simplest funding systems contain incentives and disincentives that directly influence the orientation, quantities, and types of services to be provided at the local level.

State Fiscal Policies Affecting the Placement of Students with Disabilities

Currently, approximately two-thirds of the 50 states are actively considering special education finance reform. Telephone interviews with state directors of special education or their representatives indicate that the desire for flexibility in the use of special education resources and the need to remove fiscal incentives favoring more restrictive placements are among the major factors providing impetus for change. In states where fiscal incentives for utilizing segregated programs are a major issue, two principal, and often separate, elements of the funding provisions are motivating reform. These elements are (a) aid differentials within the public system that relate to type of placement, and (b) differentials between the amounts of state aid received for services provided in local schools, as opposed to comparable services provided in more remote centralized private or public special education settings.

■ **Aid differentials related to placement.** States with public funding differentials favoring placements in separate classrooms, schools, or facilities tend to be those in which the amount of funding received varies based on the primary setting in which students receive services. These types of funding systems generally feature an array of primary service configurations, with state aid varying by type of placement. The concept underlying this type of system is that the amount of aid a district receives for a student with special needs should be directly related to the cost of providing services for the student. Since all categorical funding formulas have an underlying cost rationale, many school finance experts and policymakers have preferred systems that differentiate funding amounts on actual differences in the cost of services. Although this reasoning is clearly sound, such cost-based systems are problematic when they create clear fiscal incentives for higher cost placements provided in separate classrooms or facilities.

■ **Funding mechanisms for separate placements.** Another practice that relates to funding incentives for restrictive placements is the use of separate special education funding mechanisms for separate public and private special education schools. Issues relating to fiscal incentives for private placements seem especially difficult for states to resolve. For example, although Massachusetts recently made major changes in its public special education funding system, incentives for public schools to use private placements were retained. Similar concerns have been raised in New York, where a proposal to remove incentives to use private placements has met considerable resistance. Use of private placements varies considerably across the states. While states like New York and New Jersey show 7 and 5.75 percent of their special education students in private placements, respectively, Wisconsin shows less than .05 percent and Utah, 0 percent.

Centralized public schools for selected populations of students with low incidence special needs (e.g., a state school for the blind) can also create public policy dilemmas. It is not that the existence of such schools is problematic. In fact, they clearly seem to fall within the IDEA requirement that a "continuum of services" be available to students with special needs. However, state special education funding provisions conflict with the LRE requirement of the IDEA when they clearly favor those types of centralized placements over the provision of services in local districts. The state of Missouri serves as a case in point. Students with mental retardation may be served in state schools, which maintain a source of state support that is entirely separate from the state's special education funding system, at a cost of about $15,000 per student. Alternately, local districts may opt to serve them despite the fact that virtually no supplemental state aid is available for this type of local service.

> ***"The policies that underlie educational financing mechanisms may be as important in affecting program provision as the amounts allocated."***

What seems important from a fiscal policy perspective is that state funding systems *not favor private or separate public placements*. Funding for high cost students should *follow* students to local school districts, where decisions are best made about whether these dollars should be invested in contracted or locally provided services.

■ **Separate funding for transportation.** Another important issue relating to local flexibility in the use of funds as districts incorporate less restrictive placement patterns relates to separate, categorical funding for transportation services. As districts attempt to move students with disabilities back to their neighborhood schools, they face start-up costs in relation to making these schools fully accessible and in purchasing multiple sets of specialized equipment, rather than just the one set that may be needed in a single specialized school. These costs may be largely offset through savings in transportation costs. However, in state funding systems where transportation is categorically funded, dollars saved through reduced transportation services cannot be recouped for use in other ways (i.e., to support the start-up costs of more integrated programs in neighborhood schools).

Conclusion

Clearly, fiscal policy has the capacity to drive or deter reform. However, it is also clear that changes in fiscal policy alone are unlikely to be sufficient to cause program change. States reporting the most success in coordinating program and fiscal reform emphasize the need for financial incentives, or at least the removal of disincentives, as well as the provision of a comprehensive system of professional development and ongoing support to effect such desired program changes as the implementation of fully integrated education services for all students.

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